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Vol. 24, No. 39 October 1, 1990

NEWS BRIEFS

Menu inflation holds steady

WASHINGTON — Although the Middle Eastern crisis sharply accelerated inflation during August, the rate of increase for menu prices remained at the prior month's pace, according to the U.S. Labor Department.

With an eye on the standoff in Kuwait and the possible impact on oil supplies, economists had warned consumers to prepare for a spurt in food-price inflation during August. But Labor's monthly Consumer Price Index — the most-watched gauge of inflation — showed a 4.8-percent unadjusted year-to-year rise in menu prices, holding the tempo set in July.

However, menu prices contributed to an overall annual inflation rate of 9.6 percent, the highest in 1990.

When August's 4.8-percent rise in menu prices is discounted against a 4.1-percent sales gain at eating and drinking places during the month, restaurant traffic appears to have slipped by 0.7 percent.

Meanwhile, the rate of increase for grocery prices continued to outpace menu inflation, the department reported. Supermarket prices rose 6.2 precent in August.

Marriott, Domino's team up for novel feeding venture

WASHINGTON — Marriott's Food and Services Management division has secured rights to sell Domino's pizza in school and college cafeterias managed by the contract feeder.

In addition, the arrangement allows college students participating in Marriott feeding programs to use their meal plan debit cards to pay for pizzas delivered to their dorm rooms by a Domino's outlet.

Food and Services Management, the nation's largest contract feeder, manages the foodservice operations of 200 schools and 450 colleges and universities.

TCBY tests new soft-serve version of diet drink

LITTLE ROCK, Ariz. — TCBY Enterprises, operator of the nation's largest chain of frozen-yogurt shops, said it has agreed to manufacture and test market a new frozen, soft-serve version of the Ultra Slim Fast dieting aid.

A line of Slim-Fast shakes and frozen Ultra Slim-Fast novelties is also being tested, TCBY said. In a further nod to calorie-counters, the chain is also conducting a sales trial of salads.

TCBY disclosed the tests when it released its financial results for the third quarter ended Aug. 31. The company said its net income dropped 42 percent from the total for the same period of 1989, to $6.7 million. Revenues decreased 11 percent, to $43.6 million.

Petty takes helm of QSR

MIAMI — C. Ronald Petty has joined QSR Inc., operator of the Taco Viva and Miami Subs chains, as president and chief executive.

Petty is a former president of Burger King's domestic operations. Among his current responsibilities is the expansion of the 46-unit Miami Subs system. After franchising the drive-thru sandwich concept solely in Florida, QSR recently acquired rights to license outlets in the other 49 states.

QSR was formerly known as Taco Viva, operator of a Mexican fast-food chain of the same name.

Petty joined an executive team that already included Donald Perlyn, a former president of Lum's and creator of the short-lived Zackly's. Petty, who parted with Burger King earlier this year, replaced Donald Ryan, who left QSR in August.

Levy to midwife MTV restaurant, manage outlets at Hollywood Park

CHICAGO — Levy Restaurants here has agreed to serve as a consultant for MTV, the music video station, in the development of a rock-'n'-roll-themed restaurant in Southern California.

Meanwhile, Levy is preparing to assume management of the foodservice concessions at Los Angeles' Hollywood Park racetrack on Nov. 1.

"This creates a base of business in California, where we hope to expand," said William Post, president of Levy's Foodservice Group.

Carl's Jr. tests pizza in 3 units

ANAHEIM, Calif. — Carl Karcher Enterprises has begun selling 14-inch, baked-to-order pizzas at three Carl's Jr. fast-food restaurants retrofitted with glass-enclosed, exhibition "pizza corner" kitchens.

Equipped with separate advance-order telephone lines, the Orange County, Calif., outlets — in San Clemente, Orange and Cypress — offer the pizzas daily after 4 p.m. Order-to-service turnaround time runs about seven minutes, and the pizzas are brought to customers' tables, which is the burger chain's standard in-store service mode.

Priced from $7.99 for cheese (two for $11.99), the menu also offers $8.99 sausage or pepperoni pizzas (two for $12.99) and a $10.99 combination deluxe (two for $15.99).

McDonald's is testing pizza in some 200 outlets, and Burger King units are readying tests of Domino's-brand pizzas.

NRA to assist CDC in program to calm public about AIDS

WASHINGTON — In an effort to assure the public that AIDS cannot be contracted from food or casual contact with a food handler, the National Restaurant Association is planning to work with the Centers for Disease Control in drafting a new AIDs education program.

In addition, the health agency has offered to provide restaurants with educational materials from the first phase of the group's campaign to combat ignorance about the causes of AIDS.

"They are now planning a second phase, and they've said they'd be very happy to meet with us and discuss ways of teaching the public that AIDS is not a food-borne disease," said Jeff Prince, the NRA's senior director of communications.

After 1992 a restaurant will be forbidden to shield itself from patrons' irrational fears by reassigning a food handler with AIDS to another post. The industry lobbied vigorously to be granted that right in the Americans with Disabilities Act but was rebuffed by Congress.

Prime Motor Inns files Ch. 11

FAIRFIELD, N.J. — Prime Motor Inns, one of the lodging industry's most respected operators during the 1980s, has filed for protection under Chapter 11 of the federal bankruptcy code.

The filing followed an attempt by Prime to renegotiate its agreements with several of its major creditors. According to Prime, the lenders agreed to postpone by six months the deadline for several loan payments but were reluctant to provide the company with an additional $25 million loan.

Prime ran up a $350 million debt during the latter half of the 1980s by acquiring such franchised lodging chains as Ramada Inns, Rodeway Inns and Howard Johnson. At one time Prime operated or held the franchise rights to 1,100 inns.

Scaled-down Wyatt debuts in Texas

PALESTINE, Texas — Wyatt Cafeterias Inc. has opened a new scaled-down, fast-food version of its cafeteria concept in this East Texas town.

Palestine, with a population of 18,000, is the first location for Mrs. Wyatt's, a 90-seat restaurant with the theme and decor of a country cafe.

Entrées include chicken-fried steak, meat loaf, char-broiled chicken breast, fried catfish, chopped sirloin and a chicken-fried chicken breast.

Entrée prices at Mrs. Wyatt's range from $3.99 to $5.50. Wyatt executives are currently making plans to build a second unit in neighboring Jacksonville, Texas, population 12,800.

Wyatt's is also currently testing another scaled-down concept in a food court in a Dallas mall. Opened in March, Wyatt's Express features salads, fresh vegetables and six varieties of chicken-fried steak.

FINANCIAL NEWS

KFC profits rise from slump; chain repositions for growth

by Peter O. Keegan

LOUISVILLE, Ky. — Bouncing back from flat domestic sales and a 14-percent decline in 1989 operating profits, Kentucky Fried Chicken is recouping losses and appears to be getting back on track financially.

New leadership, improved domestic performances, continued overseas growth, price promotions and the successful launch of Hot Wings have fueled profit and revenue improvements for the 8,000-unit fried- chicken chain.

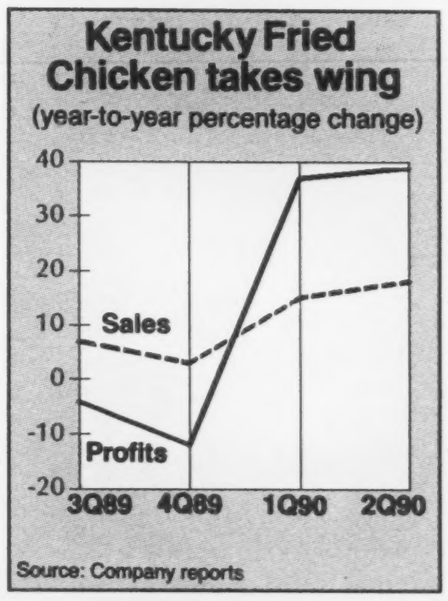
Second-quarter operating profits for the Pepsico subsidiary jumped 39 percent, to $36 million, continuing an upward spiral that began with a 37-percent profit leap in the first quarter of 1990. Operating profits for the first half of 1990 were up 40 percent, to $60 million, compared with the year-ago figure.

Net sales were up 18 percent, to $358 million, in the quarter, with combined net sales for the first two quarters up 17 percent, to 680 million.

"I think they're on the comeback trail," said Robert Cummins, an analyst with Wertheim Schroder & Co. He added that near-term performance looked good, but that KFC needs to parlay its current 5-percent same-store sales growth into double digits with new products.

"We are trying to create new traffic by offering the consumer value through promotions and by creating product news," said KFC USA president Kyle Craig.

Craig opined that Hot Wings have been the chain's most incremental introduction in a long time and is a major force driving sales growth. "They are bringing in a new type of customer," said Craig, adding that the spicy wing product is attracting patrons seeking snack foods.



"Kentucky Fried Chicken needs improved daypart sales," said Prudential Bache analyst George Thompson. "It can compare with McDonald's at night, but at lunchtime that's not a factor," he said, adding that KFC has gotten basics out of the way — like remodeling — and can now concentrate on growth.

"Pepsico has put a lot of effort behind improving the physical appearance of the units," said Roy Burry, an analyst with Kidder, Peabody. "And it is increasingly owning more units than franchised ones — which gives it more control." Burry attributed the turnaround in domestic sales to price promotions, capital expenditures and new products.

Conceding that lunch has always been a weak spot at KFC, Craig said the chain is looking at different ways to boost daypart sales through sandwiches and snack foods and hopes to continue broadening its customer base with new products like Hot Wings.

"We've been somewhat cautious on new products, maybe too cautious in the past," said Craig, noting he wants to be on the cutting edge of new product development.

Discounting, a craze that has shadowed fast-food growth in 1990, is helping to bolster sales at KFC. "Our sales have been very strong," said franchisee John Neal, adding that discounting was between 28 percent to 34 percent. "You open a paper down here, and out fall coupons from KFC, McDonald's, Domino's, Wendy's and Pizza Hut.

"We hope, over time, to create value with less discounting — but that won't happen until we create more product news. I see us doing that aggressively in 1991."

Craig also noted that KFC has to roll out more products in what he calls the "better-for-you" category. He sees consumers' perceptions of KFC as a balanced-meal alternative as a definite plus, and he is looking to capitalize on that.

The char-grilled chicken test is being expanded to Reno, Nev., from Las Vegas, where it is currently running 15 percent to 25 percent of sales.

In five years Craig is looking to boost per-unit sales averages to $1.2 million per restaurant, almost double the current average of $635,000. The company recently unveiled plans to double the amount of domestic units to 10,000 by the year 2000.

"They could benefit, because marginal costs would not be as great," Burry said of the plan. He added that greater profits could be realized through economies of scale. "But they have to be careful; fast-food demand is stagnant right now."

Craig projected that by the mid- to late '90s, two-thirds of KFC growth will be in non-traditional units.

FOOD PRICE OUTLOOK

Wheat and corn prices drop again

by Patt Patterson

With the **corn** crop estimated by U.S. Department of Agriculture forecasts at 8 percent higher than last year's quantity, corn prices have been dropping.

Some economists believe the only thing that would drive them up again would be massive sales to the Soviet Union, which is trying to harvest its largest crop in years.

Wheat prices have also dropped on a bumper winter crop (harvested this spring) plus a record spring crop expected to come in this fall. Carryover stocks at the end of June were nearly 40 percent larger than those of last year at the same time.

Again, the only potential for increases in price would be large-scale sales to other countries, primarily the U.S.S.R. and Red China. The latter country has turned to Canada for supplies over the past few years.

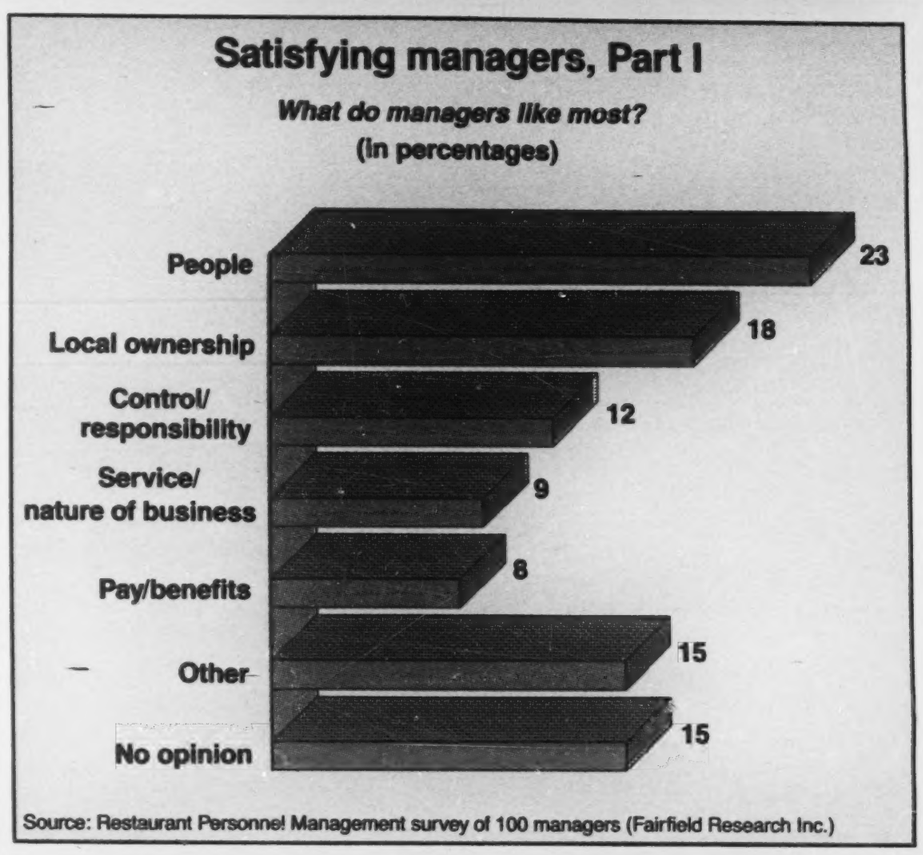
Despite smaller supplies of California **almonds** this year, the price has dropped. Although it is estimated that there is 14 percent less available in this country, about 12 percent less worldwide, yet producers have dropped the price to increase sales.

Other nut outlooks are mixed. The Northwest **hazelnut** crop is estimated to be up about 60 percent, the third largest on record. **Pistachio** inventories are strong with prices down. **Pecans**, on the other hand, are in short supply this year, with prices rising.

The **potato** picture isn't as rosy as was forecast earlier. Although there's more acreage, the yields per acre are down. The total crop is expected to be about the same as last year's, with no further softening in prices. That situation will affect fresh, frozen, canned and dehydrated potatoes.

Lettuce prices have moved up. **Iceberg lettuce**, now that supplies from Colorado and New York are ended, is seeing price rises for California product. Most **leaf lettuces** have also moved up in price, although prices for **butter** types are still moderate. Prices will probably hold until production has moved to the deserts.

FACT FILE



FINANCIAL DIGEST

TW Services prepays $70 million of debt

SPARTANBURG, S.C. — Citing "better than anticipated" operating performance, TW Holdings Inc., parent of TW Services, a diversified foodservice conglomerate based here, said it has prepaid $70 million on its senior debt.

Payments of $40 million and $30 million were used to pare down the bridge portion of the company's senior bank loan to $267.5 million. A representative of TW Services said that the payments were made possible because of a near 8-ercent hike in revenue for the six-month period ended June 30.

For the 1990 six-month period, revenue for the company hit $1.8 billion, a 12-percent increase vs. the year-ago figure.

TW Holdings, which operates Canteen, a non-commercial feeder, 400 franchises of Hardee's and the Denny's, Quincy's and El Pollo Loco chains, said it plans to pay off the remainder of the bridge loan by Dec. 1, 1990.

TW Holdings Inc., a subsidiary of New York-based Coniston Partners, accrued about $1.7 billion of debt when it acquired TW Services in December 1989.

Shoney's reports third-quarter profit hike

NASHVILLE, Tenn. — Shoney's Inc., the operator and franchisor of about 1,630 family and fast-food restaurants, including the Shoney's, Captain D's and Lee's Famous chains, reported a 55-percent jump in profits, to $9.6 million, for the third quarter ended Aug. 5.

Third-quarter revenues increased 9 percent from the year-ago period, to $228.3 million. Same-store sales increased 3.5 percent during the period, up 0.3 percent in real terms after adjusting for menu price hikes.

Separately, Shoney's said it expected that fourth quarter net earnings would reach 18 cents a share, vs. 12 cents a share last year. The company said it would reduce its debt load by at least $65 million, to about $550 million, by year-end.

Scott's reports sales rise, spending plans

TORONTO — After reporting an 8-percent sales increase, Scott's Hospitality — franchisor of the Manchu Wok chain and a major Kentucky Fried Chicken franchisee — unveiled a $150 million capital spending plan.

For the first quarter, ended July 31, sales rose 8 percent from the volume for the year-ago period, to $240 million, on a net income of $17.6 million. Net income was significantly lower than last year's, owing to higher interest costs and a 1989 gain of $107 million from sales of hotels.

The capital spending program targets hotel construction in the United Kingdom and business upgrades in the United States and Canada. The company started a seven-year renovation plan for its KFC outlets last year, improving 25 units in 1989 and 70 properties this year.

General Mills earnings up 13 percent

MINNEAPOLIS — General Mills Inc., parent company of General Mills Restaurants Inc., owner of Red Lobster and Olive Garden concepts, said that gains in its restaurant and consumer foods divisions drove earnings up 13 percent for the first quarter, ended Aug. 26.

Net income jumped 13 percent, to $130 million, on sales of $1.7 billion, a 16-percent increase from the figure for the year-ago period. The company cited rapid unit expansion, growth in per-store sales and controls on expenses as key factors behind the sales and profit growth.

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SECOND CLASS

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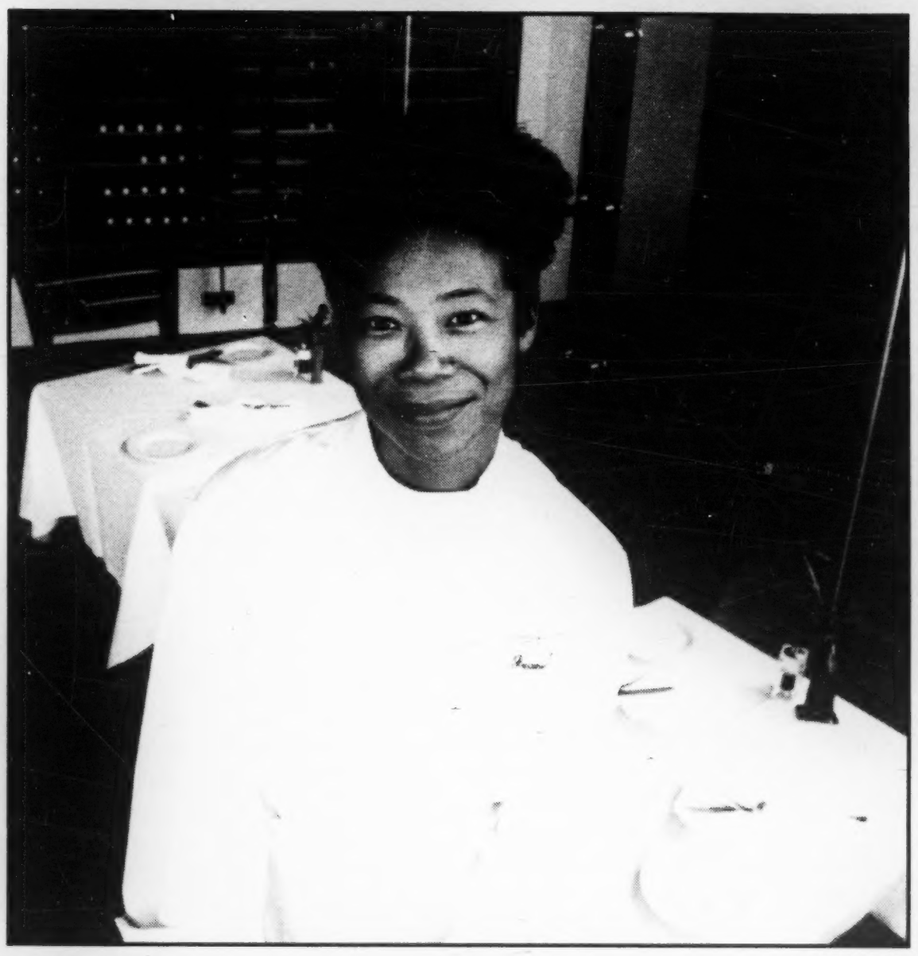

NRN Photo

Executive chef Jeanette Holley of O'toto in Hollywood.

Eclectic O'toto reflects chef's international roots

Holley mixes cultures at new LA spot

by Richard Martin

LOS ANGELES — O'toto, I don't think we're in Tokyo any more.

And this certainly isn't Kansas — or Seoul, for that matter.

No, this is Melrose Avenue in Hollywood, where the latest phase of chef Jeanette Holley's life-odyssey is unfolding [illegible]d Asian-eclectic restaurant O'toto.

Although O'toto's menu is punctuated with French, Southwestern, Chinese and Mediterranean flavors, Jeanette Holley's Japanese and American signature dishes speak most tellingly of her international upbringing.

Holley, who was born and

(See HOLLEY, page 57)

Government institute: Toughen labeling rules

Researchers advise that restaurants be required to provide detailed reports on ingredients in menu items

by Peter Romeo

WASHINGTON — The National Academy of Sciences has recommended that full-service restaurants be required to provide patrons with a computer analysis of each standard menu item's nutritional content.

The government research institution has also advised that fast-food places be obligated to provide nutritional profiles of their fare either by printing the data on food containers and wrappers or posting the information at the point of purchase.

"Considering the extent to which U.S. consumers are eating meals away from home, the committee believes that more complex nutrient information needs to be available to consumers at the point of purchase," the NAS' Institute of Health stated in a long-awaited report on food labeling. The study was undertaken a year ago at the request of the U.S. Agriculture and Health and Human Services departments, which would enforce any food-labeling law.

The National Restaurant Association blasted the NAS' suggestions as "preposterous" and "unnecessary."

"Our concern is not with providing such information," Michael E. Hurst, the NRA's president and a prominent Florida restaurateur, said in a prepared statement. "Rather, it is with how the information is conveyed."

Under the NSA's proposal, full-service restaurants

(See NSA, page 57)

CEO Tobe exits Jerrico; Clark named successor

by Milford Prewitt

LEXINGTON, Ky. — Longtime Jerrico chief executive John Tobe has suddenly resigned nearly one year to the day after he participated in a $620 million leveraged buyout of the Long John Silver's Seafood chain's parent.

Clinton A. Clark — a Jerrico board member and partner in Castle Harlan, one of two New York investment groups that teamed with Tobe and other senior Jerrico executives to take the company private — has been named to succeed Tobe as president and chief executive.

At the same time, Castle Harlan president Leonard Harlan has been named chairman of Jerrico.

Tobe, who had promised Jerrico's board that he would remain for at least a year following the buyout, resigned on his own volition, Clark said, an action precipitated by the pressures of the president's office.

Tobe

Tobe did not return phone calls.

Clark speculated that

(See TOBE, page 4)

NRA Survey: Minimum-wage hike forcing operators to raise prices

by Bill Carlino

WASHINGTON — Shortly after the national minimum wage increased from $3.35 to $3.80, more than half the food-service operators responding to a National Restaurant Association survey said they hiked menu prices to offset higher labor costs.

Fifty-six percent of the respondents who participated in the industry's first formal poll to gauge the effects of the April 1 minimum-wage hike indicated that they had already raised menu prices, while another 28 percent revealed that they intended to do so.

The results were based on a total of 746 respondents to a May questionnaire distributed by the NRA in states where the minimum wage was below $3.80 before April 1, 1990. According to Bureau of Labor Statistics, 39 states had a minimum wage below the $3.80 level before the increase was mandated.

Another 44 percent of the poll respondents said they had slashed employee hours as a cost-cutting solution, while 25 percent revealed they have reduced the number of shift employees.

However, several operators contacted by Nation's Restaurant News said they weathered the increase without changing their prices or payrolls.

"We can't afford to make price adjustments, like raising menu prices, especially with today's value-conscious consumer," said Bruce Raba, presi-

(See WAGE, page 56)

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NEWS BRIEFS

KFC explores sandwich concept

LOUISVILLE, Ky. — Kentucky Fried Chicken has launched KFC Express, a sandwich-only test unit that serves nine varieties of chicken sandwiches.

The prototype outlet recently opened in a Louisville shopping mall, according to company spokesman Dick Detwiler.

The menu includes a grilled chicken breast sandwich, a smoked chicken submarine sandwich made with sliced chicken, a chunky barbecue chicken sandwich, chicken salad in a pita pocket, a hot and spicy chicken sandwich, the Colonel's Chicken Sandwich (fried), a deluxe version of the Colonel's Chicken Sandwich and a 99-cent dark-meat-only value sandwich, he said.

Bresler's to buy Larry's Ice Cream

DES PLAINES, Ill. — Bresler's Ice Cream & Yogurt has signed a letter of intent to acquire most of Larry's Ice Cream in Tampa, Fla.

Bresler's president, David Lasky, said his company, which will purchase virtually all of Larry's assets except the manufacturing facilities and equipment, plans to continue operating Larry's shops under the current franchise agreements, keeping the two companies separate entities.

Larry's franchises 42 shops and owns and operates two units in Florida and South Carolina.

Schupak resigns as Horn & Hardart chief executive

NEW YORK — Donald Schupak, who guided The Horn & Hardart Co.'s exit from the restaurant business over the past two years, has resigned as president and chief executive.

Jack Rosenfeld, chief executive of the Hanover Cos., the direct marketing concern that is now Horn & Hardart's principal business, has been named to succeed Schupak as president and chief executive. Schupak will remain chairman on an interim basis until the transition is complete. He will be a consultant for three years, and he will remain a director.

With the recent sale of the Bojangles' chicken chain, Horn & Hardart's sole remaining restaurant holding is the International King's Table buffet chain. The once-diversified restaurant company has restructured to concentrate on its more profitable mail-order catalog business over the past two years.

Ex-employees sue Cumberland Farms, charge extortion

CANTON, Mass. — Cumberland Farms' secret system for detecting employee theft and its policy of demanding money from workers accused of stealing has sparked a spate of lawsuits against the company, charging extortion, fraud and racketeering.

Cumberland Farms Inc., operator of the 1,100-unit convenience-store chain, allegedly fired 30,900 workers over the course of 13 years after the company installed a secret method for identifying suspected thieves on the payroll.

According to The Philadelphia Inquirer, the company kept a record of each employee ever questioned about theft between 1976 and 1989. One set of records assigned a serial number to identify the accused worker, listed a reason for the questioning and indicated whether the accused paid any money to the company.

Fourteen former employees filed lawsuits in federal district court, claiming the company has a policy of falsely accusing cashiers of stealing and then threatening and coercing them into signing confessions.

Health inspectors temporarily close Moscow Pizza Huts

MOSCOW — Pizza Hut's two new restaurants here were forced to close for a few days after failing health inspections.

The company separately blamed the closings on the politics of currency and a lack of understanding of Western food preparation on the part of Soviet inspectors.

The units — which are operated as part of a joint venture between Pizza Hut parent Pepsico and the Moscow city restaurant department — were cited as being in violation of city rules for not keeping raw, partly cooked and fully cooked food clearly separated. Nor did the restaurants have the large sinks that are required as a backup to dishwashers.

Pizza Hut officials in Moscow insisted that the first unit closed was caught in the middle of a power squabble between the Moscow City Council and the District Council over a question of allowable currencies. The company later added that the inspectors were unfamiliar with automatic dishwashers and other Western methods of preparing food.

Tass, the official Soviet news agency, jumped on the report, stating, "The Soviet-American joint venture opened in the capital with pomp, all sparkling and glistening, and the pizza itself with all its spices is said to be wonderful.

"But let us drop in the kitchen, as did the Moscow sanitary inspectors, and their eyes were caught by dirty onions, cabbage and carrots. We saw many violations of norms in the Pizza Huts."

Levy Restaurants shutters Eurasia in Chicago

CHICAGO — The Levy Restaurant Group has closed Eurasia, its artfully designed 2-and-one-half-year-old experiment in East-West fusion cuisine.

Managing Partner Arun Sampanthavivat blamed the restaurant's demise on a poor location, hidden from traffic. "People always ask directions," he noted. This is the second restaurant the Levys have closed this year in the North Michigan Avenue area. The first was Hopper's Dining Car, located in the basement of the Bloomingdale's shopping mall.

The owners plan to continue to offer some of Eurasia's most popular items for delivery through the Levys' Chef's Express delivery service. Sampanthavivat continues to operate his own gourmet Thai restaurant, Arun's.

McDonald's slates 200-unit test of recycled bags

NEW YORK — McDonald's said that next month it would launch a 200-unit test of take-out bags made with recycled newsprint here.

The move is part of McDonald's strategy to create a market for recycled products — and gain some positive publicity in the process. In April the burger giant announced with great fanfare that it was earmarking more than $100 million for the purchase of supplies made from discarded materials that would otherwise contribute to the nation's garbage glut.

With 11,300 restaurants, McDonald's claims that it is the world's largest purchasers of recycled paper goods.

San Francisco suburb says no to downtown Domino's unit

LAFAYETTE CITY, Calif. — The city council of this San Francisco suburb has refused to grant a Domino's franchisee a business license under the grounds that the chain's 30-minute delivery guarantee is a safety hazard.

The denial comes after the chain spent millions of dollars over the past year on promoting its safe-driver program as a way of quelling the adverse publicity stemming from a string of fatal accidents nationwide involving Domino drivers.

Domino franchisee Dan Gearing was seeking a license to open a unit in downtown Lafayette City, within 100 feet of two nursery schools, a senior citizens complex and a church.

A Domino's spokesman said the incident is the first time in the chain's history that a franchisee has been denied a business license because of a safety issue.

But all is not lost. The council told Gearing that he could still get a business license in one of two ways: either open on the outskirts of town or eliminate the 30-minute delivery guarantee to win a downtown location.

FINANCIAL NEWS

Profit plunge, credit crunch prompt Marriott cost cutting

by Peter O. Keegan

WASHINGTON — Faced with sluggish occupancy rates, a stagnant real-estate market and a shaky economy, Marriott Corp. is tightening its belt to conserve cash and reduce debt.

Marriott cutbacks came just days before it posted a 57-percent decline in earnings, to $27 million, on a 2-percent decrease in sales, to $1.66 billion.

Last year's third-quarter net income of $63 million included $11 million from since-discontinued restaurant operations.

"As a result of a soft market, we are delaying hotel construction starts and reducing capital expenditures," said Terry Souers, vice president of corporate information. The company's contract services division will not be affected by the decision. "It's not a big capital user."

The hospitality giant will delay construction starts on most new hotels and senior living service units for 12 to 18 months. Projects that are already under way — most of which will be completed by 1991 — will not be affected.

"There is an oversupply in the hotel business, and the economy is not strong," Souers pointed out. "The actions we are taking will give us the [financial] flexibility that we need."

Marriott also said that it would slash 1991 capital expenditures in half, to $650 million, and plans to shore up its balance sheet by selling more than $700 million in assets before the end of the year. Marriott's debt-to-equity ratio is 5:1.

Souers said that Marriott is in "active negotiations" to sell its family restaurant group, which includes Bob's Big Boy, Wag's, Howard Johnson's, Allie's and Bickford's.

Steven Rockwell, an analyst with Alex. Brown & Sons, predicted selling off part of the restaurant group — which is worth from $150 million to $200 million — would bring in

(See MARRIOTT, page 56)

Major debt rating agencies take hard look at Marriott

Following Marriott's disclosure that it will postpone new project starts and trim expenditures following disappointing earnings results, two major debt rating agencies placed Marriott's senior long-term debts on a "credit watch" for possible downgrades.

Standard & Poor's placed certain single A-minus-rated long-term debt on "credit watch" with negative implications, affecting $1.4 billion of long-term securities

"Financial markets have recently become concerned over the firm's ability to continue its asset sales program," indicated Standard & Poor's. "Marriott's continued access to capital is a key part of its business strategy."

In addition, Moody's investor service said it is reviewing Marriott's long-term debt ratings for a possible downgrade.

Moody's explained that its review was prompted by its "recognition of potential deterioration of earnings and cash flow from Marriott's lodging and contract services businesses, which could result in reduced debt-protection measurements over the intermediate term."

In response to Standard & Poor's decision, Marriott chief financial officer William J. Shaw stated, "We have financial flexibility as well as a strong, stable cash flow."

In a prepared statement, he went on to say, "We have already sold approximately $900 million in assets in 1990 and expect to sell over $700 million in additional assets in the next few months."

Shaw added that contract services — which contribute nearly 50 percent of Marriott's sales and cash flow — are not affected by the hard times afflicting the lodging industry. He also noted that Marriott would meet with S & P to "help alleviate their concerns" regarding the Marriott's financial state of affairs.

Steven Rockwell, an analyst with Alex. Brown & Co., projected that in a worst-case scenario of no cash flow, "revenue-based fees and franchise fees would be enough for debt service."

Moody's called the company's asset sale program "a key part of its ability to repay temporary construction funding for development projects."

—P.O.K.

FOOD PRICE OUTLOOK

More beef, pork possible by year's end

by Patt Patterson

Supplies of **beef** and **pork** may grow more plentiful by the end of the year, according to surveys done by the U.S. Department of Agriculture. Downward trends in both cattle and hog production may be nearly over.

In a recent count the U.S.D.A. found there was 5 percent more cattle on feedlots than there had been last year at this time. And placements in August were up 6 percent from the year-ago figure. That is believed to mean that cattle herd buildup is well along, so ranchers can start sending more young animals to market. For a good part of last year and most of this one, the flow of cattle to feedlots was well down from the rate last year. That pattern seems to be changing. If there are ample supplies, prices should move downward.

The higher hog prices over the spring and summer have farmers changing their minds about hog production. The continued low cost of feed grains plus the strong prices for the past two quarters seem to have led many farmers to aim at increasing production.

Everyone is watching **grain** prices. Both **corn** and **soybeans** are not as far along in maturing as they normally are at this time of year.

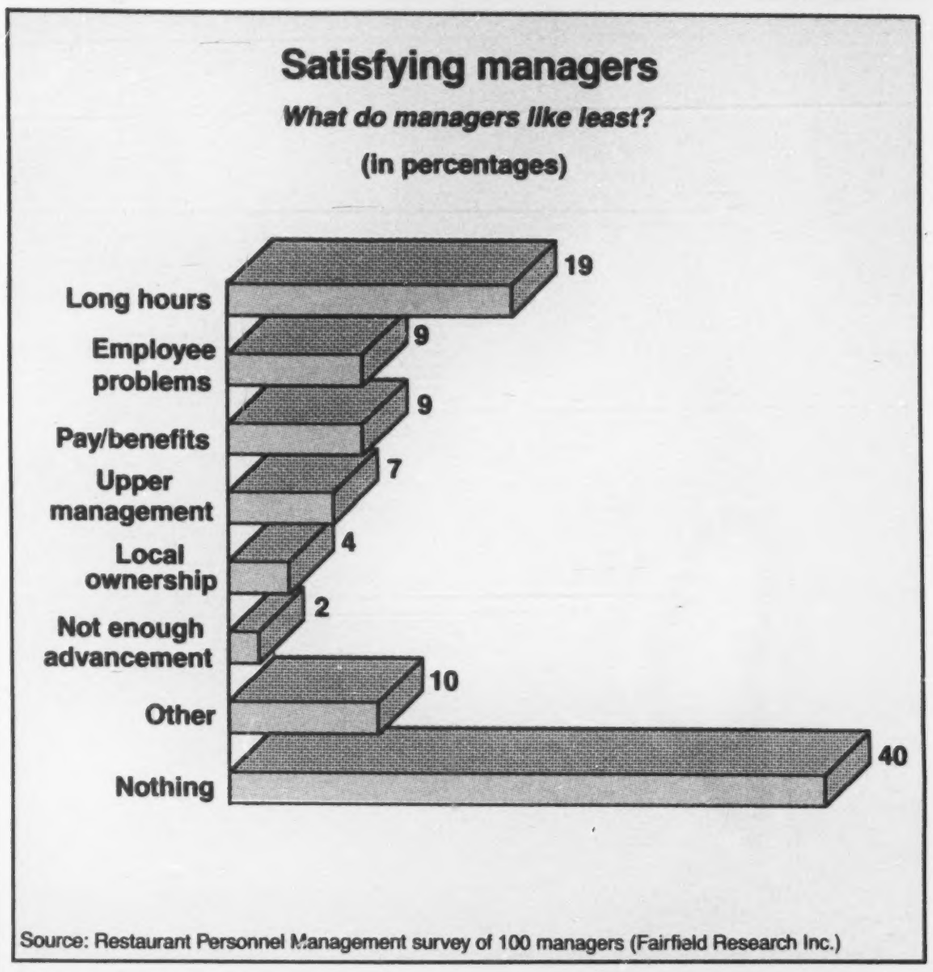
At a time when soybeans should be more than two-thirds mature, this year they aren't even one-third of the way. Corn, although not quite as badly behind schedule, is still running late. One big worry is that a killer frost could hit the plants early this year. Predictions are for a long and cold winter, according to the Old Farmer's Almanac, and several major long-range weather forecasters.

Prices should drift down on canned California **cling peaches.** This year's pack was up about 5 percent over 1989's, and there's a pretty good carryover from last year.

Northwest **canned pears** are also estimated as up about 5 percent, and prices should also drop a bit, although the carryover isn't as heavy as for cling peaches.

Canned pineapple supplies seem adequate, and manufacturers are running deals through the end of the month.

FACT FILE



Source: Restaurant Personnel Management survey of 100 managers (Fairfield Research Inc.)

FINANCIAL DIGEST

Furr's-Bishop's seeks to reincorporate

LUBBOCK, Texas — Furr's-Bishop's Cafeterias, which converted to a limited partnership several years ago for tax advantages, is seeking to return to a corporate structure.

Cavalcade & Co., the cafeteria chain's general partner, has proposed to the 20,000 limited partners a plan to exchange each of their units for 75 cents in cash, one-quarter of a share of a common stock in the new company and six-tenths of a share of $9 convertible preferred stock.

After the plan was proposed, the units dropped to a new 52-week low of $3.75 each, from about $5.50 before the proposal.

Trading in the units became hectic after the company said it would withhold a dividend until the conversion was completed. The firm later clarified the maneuver by emphasizing that the plan called for a delayed, not a skipped, payment.

Max & Erma's revenues rise 27 percent

COLUMBUS, Ohio — Despite a 27-percent increase in revenues, to $7.2 million, Max & Erma's Restaurants Inc. said third-quarter net income was off 10 percent, to $289,000, because of an extraordinary tax benefit that added $109,000 to year-ago earnings.

Before the prior-year credit, which was related to a net operating loss carryforward, income was up 37 percent for the quarter.

The 17-unit casual dinner-house operator attributed the revenue hike to increased customer counts in existing restaurants and the opening of three new units.

For the 40 weeks ended Aug. 5, net income fell 26 percent, to $710 million, while revenues rose 23 percent, to $22.9 million. During the same period last year, the company's net income was aided by a $327,000 tax benefit.

Economic conditions quash Swissôtel deal

ZURICH, Switzerland — Citing unsettled world financial market conditions, Swissair said it had agreed with Japan's Aoki Corp. to scrap their agreement for the sale of Swissôtel.

Under a deal announced in March, Aoki, which already operates 67 Westin hotels and nine Caesar Park properties, was to buy the 17-unit Swissôtel system from Swissair.

Karcher net income jumps 8% in 2nd qtr.

ANAHEIM, Calif. — Carl Karcher Enterprises, operator of the 554-unit Carl's Jr. hamburger chain, reported an 8-percent increase in second-quarter net income, to $5.1 million, on a faint 2-percent jump in revenues, to $125 million.

The improvement came as the company worked to sell or franchise all of the 40 restaurants it operates in its troubled Arizona markets.

During the six months ended Aug. 13, net income declined about one-half of 1 percent, to $10.3 million, while revenues rose 4 percent, to $282.1 million.

"Results for the quarter are encouraging, considering the heavy competitive discounting in the quick-service restaurant sector," Donald F. Karcher, president and chief operating officer, said in a statement.

Carl's Jr. has been pulling out of Arizona as part of an overall plan to concentrate on its core California markets.